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CIA-RDP89G01321R000800050002-8

Attached are talking points for your  
presentation at tomorrow's NSPG meeting on  
Egyptian President Mubarak's visit to the  
United States. Also included in this package  
is some additional background that you will  
find useful for the NSPG meeting

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25 January 1988

Date

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# ROUTING AND RECORD SHEET

**SUBJECT:** (Optional)

Arab-Israeli Problems: Violence in the Occupied Territories

**FROM:** Daniel Webster  
 National Intelligence Officer for  
 Near East South Asia

**EXTENSION**
**NO.**

NIC #00315-88

**DATE**

25 Jan 88

**TO:** (Officer designation, room number, and building)

**DATE**

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**OFFICER'S INITIALS**
**COMMENTS** (Number each comment to show from whom to whom. Draw a line across column after each comment.)

1. Director of Central Intelligence

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E.O. 12356: DECL: OADR  
TAGS: EFIN, EAID, EG  
SUBJECT: ADMINISTRATOR WOODS' MEETING WITH THE ECONOMIC  
- CABINET  
1. (C) - ENTIRE TEXT.  
2. SUMMARY: ON JANUARY 17, A.I.D. ADMINISTRATOR  
WOODS, AMBASSADOR WISNER, DIRECTOR BROWN AND OTHER U.S.  
OFFICIALS MET FOR TWO HOURS WITH PRIME MINISTER SEDKI  
AND THE ECONOMIC CABINET. THE DISCUSSION WAS AN  
INTENSIVE AND OPEN EXCHANGE ON THE GOE REFORM PROGRAM  
AND THE CURRENT STATUS OF THE IMF STANDBY. WE ARE  
REPORTING THE MEETING AS THE DISCUSSION OCCURRED IN  
ORDER TO REFLECT AS ACCURATELY AS POSSIBLE BOTH THE  
CONTENT AND FLAVOR OF THE REMARKS. END SUMMARY.

3. ATTENDEES:  
GOVERNMENT SIDE:  
PRIME MINISTER ATEF SEDKI  
DEPUTY PRIME MINISTER AND MINISTER OF PLANNING  
KAMAL AHMED EL GANZOURI  
DEPUTY PRIME MINISTER AND FOREIGN MINISTER AHMED ESMAT  
- ABDUL MEGUID  
MINISTER OF CABINET AFFAIRS ATEF MOHAMED EBEID  
MINISTER OF FINANCE MOHAMED AHMED EL RAZZAZ

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GOVERNOR OF THE CENTRAL BANK SALAH HAMED  
MINISTER OF ECONOMY YOUSRI MOUSTAFA  
MINISTER OF INTERNATIONAL COOPERATION MAKRAM ALLAH  
SUPPORT STAFF INCLUDING GENERAL AHMED FAKR AND YOUSSEF  
- BOUTROS GHALI

U. S. SIDE:

ADMINISTRATOR ALAN WOODS  
AMBASSADOR FRANK WISNER  
MARSHALL BROWN, DIRECTOR, USAID  
GEORGE LAUDATO, DEPUTY DIRECTOR, USAID  
WILLIAM WITTING, EMBASSY ECONOMICS OFFICE  
PETER GAJEWSKI, CHIEF ECONOMIST, USAID

4. NOTES OF THE MEETING FOLLOW:

SEDKI: THE PRIME MINISTER WELCOMED THE ADMINISTRATOR TO EGYPT FOR DISCUSSIONS ON MATTERS OF JOINT INTEREST. HE ALSO THANKED THE ADMINISTRATOR FOR THE ASSISTANCE THAT THE A.I.D. STAFF HAD GIVEN TO HIS OFFICE. HE STATED THAT HE HAD MANY QUESTIONS AND HE KNEW THE ADMINISTRATOR DID AS WELL. THE PRIME MINISTER INVITED THE ADMINISTRATOR TO ASK HIS QUESTIONS FIRST.

WOODS: AFTER GIVING A DESCRIPTION OF HIS VISIT TO MENOUFIA, SHOUBRA AND OTHER PLACES, THE ADMINISTRATOR CONGRATULATED PRESIDENT MUBARAK AND HIS CABINET FOR HIS SUCCESSFUL GULF TRIP, AND INDICATED THAT THIS SHOULD BODE WELL FOR THE PRESIDENT'S WASHINGTON VISIT. OUR PARTNERSHIP WITH EGYPT IS IMPORTANT, THE ADMINISTRATOR CONTINUED, AND MY FIELD TRIPS OVER THE LAST TWO DAYS HAVE SHOWN ME THE THINGS WE HAVE DONE TOGETHER. THIS JOINT IMPLEMENTATION OF IMPORTANT PROJECTS IN THE FIELD GIVES US IMPORTANT SUPPORT IN THE CONGRESS.

THE ADMINISTRATOR THEN HANDED THE PRIME MINISTER SECRETARY OF STATE SCHULTZ'S LETTER WHICH WAS IN RESPONSE TO THE GOVERNMENT'S WHITE PAPER. THE PRIME MINISTER READ THE LETTER AND THANKED THE ADMINISTRATOR. THE ADMINISTRATOR THEN CONTINUED BY SAYING THAT ECONOMIC POLICY REFORM IS IMPORTANT, AND WE APPRECIATE EGYPT'S COMMITMENT TO THE REFORM AS WELL AS TO THE IMF STANDBY, AS MENTIONED IN THE SECRETARY OF STATE'S LETTER. THE CONTINUATION OF THE ARRANGEMENT WITH THE IMF MAKES OTHER THINGS POSSIBLE AND FREES UP SIGNIFICANT RESOURCES FOR EGYPT: 1) IT PROVIDES IMF STANDBY AND WORLD BANK LOAN RESOURCES; 2) IT PROVIDES DEBT RESCHEDULING; 3) IT REINFORCES EGYPT'S CREDIBILITY WITH THE INTERNATIONAL COMMUNITY AND FREES UP RESOURCES FOR IMPORTS; 4) IT SIGNALS WIDER CONGRESSIONAL POLITICAL SUPPORT TO THE EGYPT PROGRAM, AND WOULD ALLOW FOR THE DOLS 115 MILLION CASH DISBURSEMENT AND FOR A LARGER PORTION OF THE A.I.D. PROGRAM TO BE IN FASTER-DISBURSING MODES.

THE ADMINISTRATOR THEN CONTINUED THAT HE HAD MET WITH CAMDESSUS IN WASHINGTON PRIOR TO HIS DEPARTURE. HIS IMPRESSION IS THAT THE DIFFERENCES BETWEEN THE

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GOVERNMENT AND THE FUND ARE BRIDGEABLE, AND THAT THE FUND WAS WILLING TO BE FLEXIBLE AND ACCOMMODATING TO POLITICAL PROBLEMS. IT SEEMS TO ME THAT THE EXCHANGE C O N F I D E N T I A L SECTION 02 OF 06 CAIRO 01397

E.O. 12356: DECL: OADR

TAGS: EFIN, EAID, EG

SUBJECT: ADMINISTRATOR WOODS' MEETING WITH THE ECONOMIC UNIFICATION IS THE MOST IMPORTANT ISSUE. THE RATE DOES NOT NEED TO BE UNIFIED IMMEDIATELY BUT A SCHEDULE SHOULD BE SET. THE ADMINISTRATOR THEN INDICATED THAT IT WOULD BE GOOD FOR PRESIDENT MUBARAK TO MEET WITH BOTH CAMDESSUS AND CONABLE ON HIS VISIT TO WASHINGTON. WITH BANKERS IT IS ALWAYS GOOD TO GO TO THE TOP, THE ADMINISTRATOR ADDED.

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SEDKI: THE PRIME MINISTER THEN INDICATED THAT THE NEGOTIATIONS WITH THE FUND ARE NOW UNDER WAY AND HE RECOGNIZED THE SECRETARY'S REFERENCE TO THE IMF QUESTION IN HIS LETTER, BUT THE DIFFERENCES BETWEEN THE FUND AND THE GOVERNMENT HAVE BEEN EXAGGERATED. IT WAS OUR UNDERSTANDING WHEN THE FUND MISSION LEFT IN NOVEMBER THAT ALL THE ISSUES WERE AGREED EXCEPT THE SCHEDULE FOR THE .70 EXCHANGE RATE UNIFICATION.

THE PRIME MINISTER THEN DESCRIBED THE STEPS THAT THE GOVERNMENT HAD TAKEN IN UNIFYING THE COMMERCIAL BANK RATE AND STRESSED THEY WERE AHEAD OF THE SCHEDULE THAT WAS AGREED TO WITH THE IMF. AS TO THE CENTRAL BANK POOL RATE (LE .70 DOLS 1.00) WE USE THIS POOL TO FINANCE ESSENTIAL COMMODITIES. WE AGREED WITH THE FUND THAT IN MAY WE WOULD DISCUSS THE MOVEMENT OF THIS POOL TO THE FREE MARKET IN STEPS. WE DISCUSSED THIS WITH THE FUND DURING THEIR RECENT VISIT. THE FUND STAFF REPORTED TO CAMDESSUS THAT THE GOVERNMENT OF EGYPT DID NOT AGREE TO UNIFY THIS RATE. THIS IS NOT CORRECT. WE AGREED TO UNIFY IT, AND WE ARE PREPARED TO DISCUSS IT.

AS TO THE BUDGET DEFICIT, AGAIN THERE WAS ONLY ONE- OR TWO-MONTH DATA AVAILABLE. THE FUND STAFF HAD AGREED TO REVIEW MORE DATA IN JANUARY AND AT THAT TIME WOULD RECOMMEND WHAT BUDGET-TIGHTENING STEPS WERE TO BE TAKEN. THEY AGREED WITH US TO COME BACK IN JANUARY TO DO THIS. AGAIN, THEY TOLD CAMDESSUS THAT THE GOVERNMENT DID NOT AGREE. THIS IS NOT TRUE. THE GOVERNMENT HAS NEVER TOLD THE IMF "NO" ON ANYTHING THAT WAS PROPOSED. WE NEED MORE TIME. I TOLD AMBASSADOR WISNER AND EVERYONE ELSE WITH WHOM I HAVE DISCUSSED THIS MATTER, THAT WE ARE WILLING TO UNDERTAKE ALL THE REFORMS RECOMMENDED BY THE FUND, BUT WE MUST MOVE STEP BY STEP. WE RAISED ENERGY PRICES BY OVER 30 PERCENT LAST MAY AND WE CANNOT RAISE THEM AGAIN FOR ONE YEAR. THE FUND ASKED US TO DO THIS IN JANUARY. WE DID NOT REFUSE TO DO IT, BUT WE WILL DO IT IN MAY. WE ARE MOVING RAPIDLY IN AGRICULTURE REFORMS, AND AS TO SUBSIDIES, THE PUBLIC

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SECTOR PRICES ARE GOING UP VERY QUICKLY. WE HAVE HAD SEVERAL DEMONSTRATIONS AGAINST PRICE INCREASES. WE ARE VERY MUCH AFRAID OF THIS. WE WANT A PEACEFUL REFORM PROGRAM. IN AGRICULTURE, PROCUREMENT PRICES FOR COTTON HAVE BEEN RAISED AND PRICES FOR RICE AND SUGAR ARE ALSO BEING RAISED.

WE ARE NOT DOING THIS BECAUSE THE FUND IS TELLING US TO. THIS IS OUR PROGRAM, AND WE ARE DOING IT BECAUSE WE FEEL IT IS THE RIGHT POLICY. I HAVE TOLD EVERYONE THAT THIS IS OUR PROGRAM AND NOT THEIR PROGRAM. IT MUST BE GRADUAL, IT MUST TAKE COGNIZANCE OF DEVELOPMENT AND GROWTH, AND IT MUST HAVE THE LONG-TERM OBJECTIVE OF DEVELOPMENT. WE NEED TO SUCCEED WITHOUT POLITICAL OR SOCIAL DISORDER AS HAS HAPPENED IN MANY COUNTRIES UNDER IMF PROGRAMS IN THIS REGION. I STILL REMEMBER THE RIOTS IN JANUARY OF 1977. WE CANNOT HAVE A REPEAT OF THAT. FOR STABILITY WE NEED TO DO IT GRADUALLY. THIS IS THE MAIN DIFFERENCE BETWEEN THE FUND STAFF'S VIEWS AND OURS. WE ARE GOING FAST; THE FUND WANTS US TO GO VERY FAST. WE CANNOT DO IT. WE HAVE SURVEYED AND ARE CONTINUING TO SURVEY PRICES.

I WILL ANSWER SECRETARY OF STATE SHULTZ'S LETTER AND EXPLAIN TO HIM THE SAME THING I AM TELLING YOU NOW. AS AN ECONOMIST I FEEL THAT A SITUATION WHICH HAS DEVELOPED OVER A 25-YEAR PERIOD CANNOT BE CHANGED OVERNIGHT. IN ALL OF THIS, WE VERY MUCH APPRECIATE USAID'S EFFORT TO HELP US.

AS TO THE BANK, TALWITZ WAS HERE. HE WAS VERY UNDERSTANDING. HE SENT US A LETTER, AND WE ARE TALKING TO THE BANK. THEY ARE MUCH MORE FLEXIBLE THAN THE FUND. WE WILL CONTINUE TO TALK TO THEM, AND WITH YOUR SUPPORT WE WILL COME TO AN AGREEMENT. I RECENTLY MET WITH SENATOR CHAFFEY AND I EXPLAINED TO HIM OUR REFORM PROGRAM. WE WILL DO THIS REFORM PROGRAM WITH OR WITHOUT THE FUND.

C O N F I D E N T I A L SECTION 03 OF 06 CAIRO 01397

E.O. 12356: DECL: OADR

TAGS: EFIN, EAID, EG

SUBJECT: ADMINISTRATOR WOODS' MEETING WITH THE ECONOMIC WOODS: THE ADMINISTRATOR RESPONDED THAT WE HAVE WORKED AS PARTNERS, AND WE NEED TO SPEAK FRANKLY. YOUR ANALYSIS IS SIMILAR TO MY OWN, AND THE DIFFERENCES ARE RELATIVELY SMALL AND SHOULD BE BRIDGEABLE. THE BANK PROGRAM DEPENDS ON THE FUND. WE PRESSURED THE FUND TO COME TO AN AGREEMENT WITH YOU IN MAY EVEN THOUGH THE FUND AND MANY OBSERVERS FELT THE AGREEMENT WAS WEAK. WE GAVE YOU THIS SUPPORT WITH THE UNDERSTANDING THAT YOU WOULD STRENGTHEN THE AGREEMENT IN NOVEMBER. WE WENT TO BAT FOR EGYPT, AND WE WERE SURE THAT YOU WOULD CARRY THROUGH THE STRENGTHENING YOU HAVE PROMISED. WE ARE ALSO CONCERNED WITH GROWTH AND DEVELOPMENT. THE FUND

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AGREEMENT IS CRITICAL TO BRING YOU THE ADDITIONAL RESOURCES FROM OTHER SOURCES. WE MAY NOT LIKE THE FUND POSITION OR ITS INTERPRETATION OF EVENTS, IT MAY NOT BE LEGITIMATE, BUT IT IS A FACT THAT IS THERE AND WE MUST DEAL WITH IT. WE HAVE ENCOURAGED THE FUND AGAIN TO COME TO AN AGREEMENT WITH YOU.

SEDKI: THE PRIME MINISTER THEN INTERJECTED THAT THE FUND WAS NOT DEALING IN GOOD FAITH WITH US. THEY ARE NIT-PICKING OUR ESTIMATES AND PROJECTIONS AND ARE BEING TROUBLESOME.

WOODS: THE ADMINISTRATOR REPLIED THAT IT IS VERY IMPORTANT TO COME TO AN AGREEMENT QUICKLY BECAUSE SO MUCH DEPENDS ON IT. THE TIMING IS VERY IMPORTANT. THIS IS AN ELECTION YEAR IN THE UNITED STATES AND I WILL ONLY HAVE FIVE MONTHS TO CONVINCE THE CONGRESS FOR MORE FAST-DISBURSING AID AND CASH FOR EGYPT.

MEGULD: THE FOREIGN MINISTER THEN THANKED THE ADMINISTRATOR FOR ENCOURAGING THE FUND TO BE MORE FLEXIBLE. HOWEVER, HE QUOTED A HIGH FUND OFFICIAL AS SAYING, "WE HAVE TO STOP THIS GRADUALISM." I WAS SURPRISED. IF WE STOP IT, THERE WILL BE A COMPLETE COLLAPSE. WE CANNOT STOP GRADUALISM. THE FUND IS TOTALLY OUT OF TUNE WITH EGYPT'S SOCIAL AND POLITICAL REALITIES. WE ARE PLEASED THAT THE U.S. INTERVENED WITH THE FUND AND WE NEED YOU TO INTERVENE AGAIN. WE ARE DOING ALL THAT IS HUMANLY POSSIBLE. WE ARE FACING TOTAL COLLAPSE. WE NEED FLEXIBILITY FROM THE FUND AND YOUR SUPPORT WITH THEM.

WOODS: I HAVE ENCOURAGED FLEXIBILITY WITH THE FUND, BUT I DELIVER THE SAME MESSAGE TO YOU AS I DELIVERED TO THEM, AND THAT IS A PLEA FOR FLEXIBILITY. THERE MUST BE A CREATIVE WAY OUT. BANKERS OFTEN LOOK AT THE RAPIDITY OF REFORM WHEREAS POLITICIANS LOOK AT THE GRADUALISM. THE REALITY IS YOU NEED TO FIND A MIDDLE GROUND. WHEN I MET WITH SOME OF YOUR AGRICULTURE MINISTRY OFFICIALS, THEY TOLD ME HOW DIFFICULT THEY THOUGHT THE REFORMS IN AGRICULTURE WOULD BE, BUT THEN THEY SAID ONCE THE MOVEMENT STARTED IT MOVED MUCH FASTER THAN THEY THOUGHT. THE KEY ISSUE HERE IS A MOVEMENT ON UNIFYING ALL THE EXCHANGE RATES.

SEDKI: THE PRIME MINISTER SAID WE ARE WORKING HARD ON THE .70 RATE UNIFICATION STEP BY STEP. WHAT IS THE ROLE OF THE U.S. HERE? YOU DID A LOT FOR US LAST YEAR WITH THE IMF BUT WE WANT MORE FROM YOU. YOU ARE THE ONLY COUNTRY THAT CAN DO IT. DO NOT TIE YOUR AID PROGRAM TO THE IMF.

EBEID: EBEID THEN PLEADED NOT TO TIE U.S. CASH AND FASTER DISBURSEMENTS TO THE IMF PROGRAM.

SEDKI: THE PRIME MINISTER THEN READ A PORTION OF THE CONGRESSIONAL RECORD AND ASKED WHY THIS YEAR THERE IS A CEILING OF DOLS 115 MILLION CASH WHEREAS LAST YEAR THE

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✓ CONGRESSIONAL RECORD INDICATED THAT IT SHOULD BE "NOT LESS THAN DOLS 115 MILLION." WHY DOES THIS YEAR'S CONGRESSIONAL RECORD INDICATE THAT THERE SHOULD BE SIGNIFICANT ADDITIONAL REFORMS? THIS IS THE SAME THING THE IMF IS SAYING. WE WANT A.I.D. TO SUPPORT US IN DOING THE REFORMS, NOT TO GIVE AID ONLY IF WE DO THEM. GANZOURI: GANZOURI THEN ADDED THAT THE CURRENT GRADUALISM IS DIFFERENT FROM THREE YEARS AGO. WE HAVE STUCK TO ALL THE MEASURES THAT WE HAD AGREED WITH THE IMF. IT IS CLEAR THAT THE STANDBY AGREEMENT CALLS FOR REACHING AN AGREEMENT ON THE SCHEDULE FOR RATE UNIFICATION, NOT TO IMPLEMENT IT. LAST YEAR MCPHERSON PROMISED US DOLS 300 MILLION IF WE SIGNED UP WITH THE IMF. WE SIGNED, AND WE DIDN'T GET THE MONEY. NOW YOU

C O N F I D E N T I A L SECTION 04 OF 06 CAIRO 01397

E.O. 12356: DECL: OADR

TAGS: EFIN, EAID, EG

SUBJECT: ADMINISTRATOR WOODS' MEETING WITH THE ECONOMIC ASK US TO DO MORE ON ECONOMIC MEASURES. WE HAVE RECEIVED 26 BANK AND FUND MISSIONS IN THE LAST YEAR. THEY ALL SEEM SATISFIED WITH OUR PROGRESS. WHAT IS THE PROBLEM NOW?

WOODS: THE ADMINISTRATOR THEN SAID THE ISSUE IS NOT THAT YOU DID NOT FULFILL THE DETAILS. THE DETAILS ARE MARGINAL. THE ISSUE IS THAT THE ORIGINAL AGREEMENT WAS WEAK. IT WAS AT THAT POINT THE U.S. PUT PRESSURE ON THE FUND WITH THE EXPECTATION THAT THE GOE WOULD IMPLEMENT A STRENGTHENING IN NOVEMBER OF 1987. YOU SHOULD KNOW THAT CONGRESS WAS VERY MUCH AWARE OF THIS. THERE ARE NO SECRETS IN WASHINGTON. SO THEY KNEW IT WAS A WEAK AGREEMENT AND A WEAK COMMITMENT. THAT IS WHY THIS YEAR'S DOLS 115 MILLION HAS A CEILING IN THE LEGISLATION. THAT IS WHY IT IS SO IMPORTANT THAT YOU CLOSE YOUR NEGOTIATIONS WITH THE FUND AND STRENGTHEN THE AGREEMENT TO REPAIR YOUR CREDIBILITY WITH THE CONGRESS. WE CAN THEN REPAIR THE IDEA THAT YOU ARE NOT COMMITTED TO ECONOMIC REFORM.

GANZOURI: GANZOURI THEN SAID, IN MY VIEW WE SHOULD HAVE AN A ON ECONOMIC REFORMS; THE AGREEMENT WAS NOT WEAK.

WOODS: THE ADMINISTRATOR SAID THAT THE VIEW THAT THE AGREEMENT WAS WEAK WAS UNIVERSAL AMONG THE MEMBERS OF THE FUND, AND IT WAS THE U.S. THAT CARRIED THE DAY FOR EGYPT TO GET THE FUND TO SIGN THE AGREEMENT.

SEDKI: THE PRIME MINISTER THEN CONTINUED. WE HAVE STRENGTHENED AS MUCH AS ANY GOVERNMENT CAN. THE CRITICISM OF OUR PROGRAM CAME AFTER WE SUCCEEDED ON THE EXCHANGE RATE REFORMS AND OTHER MEASURES.

WOODS: THE ADMINISTRATOR SAID HE HAD TALKED WITH CAMDESSUS IN WASHINGTON AND THAT CAMDESSUS IS AWARE THERE IS A LACK OF COMMUNICATION BETWEEN THE FUND MISSIONS AND THE GOVERNMENT.

SEDKI: THE PRIME MINISTER THEN SAID, YES, IT IS THE IMF

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MISSION'S FAULT.

EBEID: EBEID THEN ASKED: IS THE MOST IMPORTANT REFORM THE EXCHANGE RATE? IF IT IS, THE TWO PARTNERS SHOULD SHOW FLEXIBILITY IN NEGOTIATING IT. HE THEN ASKED, WHAT IS MEANT BY "FLEXIBILITY"? WE SHOULD TRY TO DEFINE THAT AND NEGOTIATE IT. EBEID STRESSED THAT THE ECONOMIC REFORM PROGRAM HAS TWO PARTS. ONE IS THE LIBERALIZATION OF PRICES WHICH HAS INFLATIONARY IMPACTS WHICH ARE ACCEPTED BY THE GOVERNMENT, BUT THE SECOND IS TO STRENGTHEN THE SUPPLY SIDE THROUGH THE SUPPORT OF OUR BALANCE OF PAYMENTS. SO FAR, THE DONOR SUPPORT FOR THE SUPPLY SIDE HAS BEEN WEAK. WE MUST STRIKE A BALANCE BETWEEN INFLATION AND GROWTH.

WOODS: THE ADMINISTRATOR THEN CONFIRMED THAT THE UNIFICATION OF THE EXCHANGE RATE IS A KEY ISSUE, BUT THAT WE CANNOT NEGOTIATE THIS. IT MUST BE NEGOTIATED WITH THE FUND. IT IS NOT APPROPRIATE, HOWEVER, I HAVE BEEN INFORMED BY CAMDESSUS THAT IF THE EXCHANGE RATE ISSUE CAN BE SOLVED, THE FUND'S POSITION ON OTHER CONDITIONS CAN BE SOFTENED. I AGREE THAT THE SUPPLY SIDE IS IMPORTANT, BUT WITHOUT AN IMF AGREEMENT, THE SUPPLY SIDE WILL BE EVEN HARDER TO COME BY, AND THE U.S. WILL HAVE POLITICAL PROBLEMS. WE DON'T HAVE THE RESOURCES TO REPLACE THE MONIES WHICH WILL FLOW FROM THE FUND AGREEMENT.

EBEID: EBEID THEN SAID THERE IS SOME MISUNDERSTANDING HERE. WE WERE TOLD THAT ONCE THE AGREEMENT IS SIGNED WE COULD GET THE RESOURCES, THEN NO RESOURCES CAME. NOW WE ARE TOLD THAT IF WE HAVE THE SECOND AGREEMENT, THEN WE WILL GET RESOURCES. WHAT WILL HAPPEN IS WHAT HAPPENED BEFORE: AS SOON AS WE SIGN THE SECOND AGREEMENT, THE RESOURCES WILL DISAPPEAR.

HAMED: SALAH HAMED THEN INTERJECTED. THAT IS CORRECT; WE WERE GIVEN ASSURANCES THAT ONCE WE SIGNED THE FUND AGREEMENT, THE RESOURCE GAP WOULD BE CLOSED. IT NEVER HAPPENED.

WOODS: THE ADMINISTRATOR THEN SAID THAT THE DEBT RESCHEDULING WAS VERY VALUABLE. WITH REGARD TO CASH PROMISED FROM THE U.S., THIS WAS BEFORE MY WATCH ALTHOUGH I AM NOT DUCKING MY RESPONSIBILITY FOR IT. THE WISNER

C O N F I D E N T I A L SECTION 05 OF 06 CAIRO 01397

E.O. 12356: DECL: OADR

TAGS: EFIN, EAID, EG

SUBJECT: ADMINISTRATOR WOODS' MEETING WITH THE ECONOMIC STANDBY WAS WEAK. THE CONGRESS WAS AWARE OF IT, AND THE EVENTS FOLLOWED. WE HAVE THE CAPACITY TO SPEED UP DISBURSEMENT IN EGYPT THROUGH THE FAST-DISBURSING CIP SECTOR PROGRAMS, ETC., IF WE HAVE A FUND AGREEMENT. WE CANNOT OPERATE IN A VACUUM THAT ONLY WE AND YOU EXIST. WE MUST FILL THE SUPPLY SIDE AS PART OF AN IMF PROGRAM.

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THE POLITICAL REALITY IN THE U.S. IS THAT THE FUND AND THE CONGRESS EXIST AND WE CANNOT IGNORE THEM.

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MEGUID: THE FOREIGN MINISTER THEN SAID, YOU ARE SAYING THAT WE ARE NOT DOING ENOUGH, BUT WE ARE SAYING THAT YOU ARE NOT DOING ENOUGH. WHEN WE SIGNED THE AGREEMENT WE DID WHAT YOU RECOMMENDED. WE ARE GOING THROUGH A VERY DIFFICULT INTERNAL POLITICAL SITUATION. PRICES ARE SHOOTING UP. WE ARE RECEIVING DANGEROUS SIGNALS. YOU DON'T SEE IT, BUT WE WILL HAVE TO PAY A VERY HEAVY PRICE. CAMDESSUS IS VERY FAR AWAY FROM CAIRO. WE ARE VERY WORRIED ABOUT THE DEMONSTRATIONS. WE CANNOT LET THE SITUATION DRAG ON. WE HAVE DIFFERENT PERCEPTIONS. I KNOW THAT YOU HAVE GOOD INTENTIONS. AS ONE OF THE G-7 COUNTRIES YOU CAN SPEAK TO YOUR FELLOW MEMBERS AND YOU DID BEFORE. HOWEVER, NO RESPONSE CAME IN TERMS OF RESOURCE FLOWS SO YOU ARE NOT DOING ENOUGH TO HELP US. HOWEVER, WE CANNOT DO IT ON OUR OWN. IN THE NEXT FEW MONTHS WE NEED HELP. WHAT HAS HAPPENED IN THE LAST FEW WEEKS IS EXTREMELY DANGEROUS. THE RISE OF CUSTOMS DUTIES HAS HAD A BIG IMPACT ON PRICES, OVER 50 PERCENT IN SOME CASES. IS THIS NOT PROOF ENOUGH? WE ARE REALLY WORRIED ABOUT THE INTERNAL COLLAPSE OF EGYPT.

THE DEMONSTRATIONS, ALTHOUGH PARTLY POLITICAL, WERE MAINLY AGAINST PRICE INCREASES. THE U.S. MUST TELL THE OTHER DONORS THAT THE SITUATION IS VERY SERIOUS. TELL SECRETARY SHULTZ. WE ARE NOT BLAMING THE U.S., THEY ARE MAKING A SERIOUS EFFORT, BUT THE IMF PROGRAM IS LEADING TO RAPID DETERIORATION IN EGYPT.

WOODS: THE ADMINISTRATOR THEN RESPONDED THAT ON A PERSONAL LEVEL HE FIRST CAME TO EGYPT JUST AFTER THE 1977 DEMONSTRATIONS HAD OCCURRED. I AM NOT AS SENSITIVE TO THE POLITICS AS YOU ARE AND I COULD NEVER BE SINCE I AM NOT EGYPTIAN. BUT LET ME EMPHASIZE: IT IS NOT THE U.S. WITH WHICH YOU ARE DOING COMBAT. NOT EVEN THE IMF IS YOUR ADVERSARY. THE PACE OF REFORM SHOULD BE DISCUSSED. YOU ARE VERY CLOSE AND IT CAN BE BRIDGED. IT IS NOT TRUE THAT NOTHING HAPPENED AFTER YOU AGREED WITH THE IMF. THE DEBT WAS RESCHEDULED, AND WORLD BANK AID WAS READY TO COME IN. THE BANK IS ALSO READY WITH A CONSULTATIVE GROUP.

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EBEID: EBEID THEN CRITICIZED CONDITIONALITY OF THE FUND AND U.S. PROGRAMS. THE IMF CONTINUES TO CHANGE ITS POSITION ON REFORMS. THE BANK AND FUND MISSIONS CONTINUOUSLY CHANGE THEIR ASSESSMENT OF THE ECONOMY AND OF OUR REFORM PROGRAM, AND CONTINUE TO PRESS TO INCREASE THE RATE OF INFLATION. OUR INFLATION RATE IS CURRENTLY OVER 30 PERCENT, AND WAGES ARE NOT GOING UP BY ANYWHERE NEAR THAT AMOUNT. WE AS A CABINET CANNOT RECOMMEND TO THE PRESIDENT ANY FURTHER MEASURES WHICH WOULD PUT PRESSURE ON PRICES. THIS WOULD BE COMMITTING POLITICAL

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SUICIDE, AND YOU DON'T WANT US TO DO THAT, DO YOU?  
WOODS: THE ADMINISTRATOR REPLIED, OF COURSE NOT, BUT IN SOME MANNER YOU HAVE BEEN WISE IN IMPLEMENTING GRADUAL REFORMS. I PARTICULARLY LIKE THE WAY THAT MINISTER ABAZA EXPLAINED TO ME THE POWER RATE INCREASES.

MEGULD: MEGULD THEN INTERJECTED: THE MASSES ARE COMPLAINING ABOUT PRICE INCREASES. WE ARE WORRIED ABOUT POLITICAL STABILITY. YOU NEED TO CONVINCE OUR FRIENDS NOT TO REQUEST MORE AND MORE CONDITIONS. WHAT IS NEEDED IS MORE HELP.

HAMED: SALAH HAMED THEN SAID THAT THE GAP IN THE BALANCE OF PAYMENTS IS WIDENING, AND THAT RESOURCES THAT HAVE BEEN PROMISED HAVE NOT COME. THE DOLLAR DEVALUATION HAS ALSO AFFECTED US BADLY IN OUR PURCHASES FROM EUROPE AND JAPAN. ALL THE REFORMS WE ARE MAKING ARE AFFECTING INFLATION. BOTH THE CUSTOMS AND EXCHANGE RATE REFORMS ARE AFFECTING THE POOR MUCH MORE THAN THE RICH.

MAKRAM ALLAH: MAKRAM ALLAH THEN COMMENTED THAT THE SUPPLY SIDE IS WHAT IS MOST IMPORTANT. ONE CANNOT DEAL WITH ONE SIDE ONLY.

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(#)

HE RECOUNTED HIS CONVERSATIONS WITH FARMERS THAT THE PRICE OF ORANGES HAD NOT CHANGED IN THREE YEARS. THAT IS BECAUSE SUPPLY RESPONDED TO DEMAND AND PRICE HAS BEEN KEPT STABLE. HE AGAIN REMINDED THE CABINET THAT ECONOMIC REFORM DOES NOT TAKE PLACE WITHOUT POLITICAL PAIN.

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EBEID: EBEID THEN CONTINUED WITH HIS QUESTIONING. HE IDENTIFIED IT AS QUESTION NO. 4. CAN WE AGREE THAT ONCE THE ECONOMY REACHES A CERTAIN LEVEL OF INFLATION THE REFORMS NEED TO BE SLOWED DOWN? CAN THIS BE AN AGREEMENT BETWEEN EGYPT, THE IMF AND THE U.S? IN OTHER WORDS, WHAT ARE THE RULES OF THE REFORM GAME SO IT DOESN'T GET OUT OF CONTROL? ALSO, THIS WOULD LAY DOWN MORE SPECIFIC GUIDELINES WHICH ARE FLEXIBLE HAS AN IMPORTANT ROLE IN THE MANAGEMENT OF FUTURE REFORM NEGOTIATIONS. QUESTION NO. 5 IS THAT WE SHOULD NOT TALK ABOUT RESOURCES IN THE HANDS OF OTHERS. WE DON'T HAVE THE FOREIGN EXCHANGE. SO LET'S TALK ONLY ABOUT U.S.-EGYPTIAN RESOURCES AND HOW THEY CAN HELP IN THE ECONOMIC REFORM. IN THIS REGARD, HOW CAN THE DOLS 2.2 BILLION PIPELINE BE USED?

WOODS: THE ADMINISTRATOR SAID, I WILL ANSWER YOUR QUESTION NO. 5 FIRST. THE PIPELINE IS NOT NECESSARILY BAD IN EGYPT. THE DOLLARS ARE IN THE BANK TO FINISH THE PROJECTS THAT WE HAVE JOINTLY STARTED.

EBEID: EBEID THEN INTERJECTED: IF YOU WILL MONETIZE THE PIPELINE OUR GOVERNMENT WILL GUARANTEE THAT THE PROJECTS WILL BE FINISHED. HE THEN ASKED IF THE USE OF

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RESTRICTED LETTERS OF CREDIT TO FACILITATE THE CIP DISBURSEMENT COULD BE USED TO GET THE COMMODITIES ON THE STREET QUICKER.

BROWN: BUSTER BROWN REPLIED THAT THIS IS JUST A VARIATION OF THE REGULAR CIP PROGRAM, AND THAT THE FORM OF THE CIP IS NOT THE PROBLEM. THE REAL PROBLEM WOULD BE DEOBLIGATING THE PIPELINE AND THEN GETTING CONGRESS' APPROVAL TO REOBLIGATE THOSE FUNDS FOR EGYPT.

WOODS: THE ADMINISTRATOR THEN SAID THAT THIS IS A CRITICAL POINT OF THE IMF STANDBY IMPLEMENTATION BECAUSE OUR CAPACITY TO HELP YOU IS RELATED TO YOUR PAST REPRESENTATIONS MADE TO THE IMF AND THE OTHER DONORS. I DON'T SEE THE GAP AS BEING TOO LARGE FOR YOU TO BRIDGE. THE REALITY IS THAT OUR RESOURCES COMBINED WITH YOURS ARE NOT ENOUGH TO HAVE THE IMPACT WE NEED AND THAT WE NEED THE FUND AND THE BANK. QUESTION NO. 4 IS NOT REALLY AN ISSUE. THIS TYPE OF MONITORING COULD BE BUILT INTO A FUND AGREEMENT.

SEDKI: THE PRIME MINISTER THEN STARTED ON A TIRADE AGAINST THE IMF, CALLING IT "DR. IMF PRESCRIBES THIS AND THAT, AND ONE GOVERNMENT FALLS AFTER ANOTHER." THE OTHER MINISTERS JOINED IN THE TIRADE.

WOODS: THE ADMINISTRATOR THEN SAID THE IMF IS NASTY TO EVERYONE. WE TAKE IT VERY SERIOUSLY, BUT CANNOT ALWAYS FOLLOW THE PRESCRIPTION. BUT I DO BELIEVE THAT ECONOMIC REFORM IS A CRITICAL ASPECT OF EGYPT'S FUTURE GROWTH AND DEVELOPMENT. FURTHER, IN PROMOTING THIS GROWTH, I HAVE BEEN PUSHING BUSTER BROWN VERY HARD TO INCREASE THE MOVEMENT OF HIS RESOURCES INTO THE PRIVATE SECTOR. AS FAR AS I CAN TELL FROM THE DATA WE ARE CURRENTLY ONLY SPENDING ABOUT 10 PERCENT OF OUR RESOURCES IN SUPPORT OF THE PRIVATE SECTOR.

EBEID: EBEID THEN REPLIED THAT THIS IS JUST AN ILLUSION BECAUSE POWER GENERATION AND INFRASTRUCTURE SERVE THE PRIVATE SECTOR, AND THE LACK OF INFRASTRUCTURE WAS ONE OF THE MAIN IMPEDIMENTS TO PRIVATE SECTOR DEVELOPMENT. AT THIS POINT THE MEETING WAS ADJOURNED.

WISNER

END OF MESSAGE

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